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CANADA SAFEWAY LIMITED • ANNUAL REPORT • 1971

Can Safewy

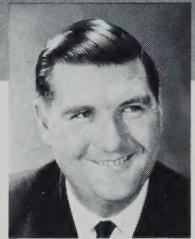


VANCOUVER (For Canada Safeway East, see back cover)



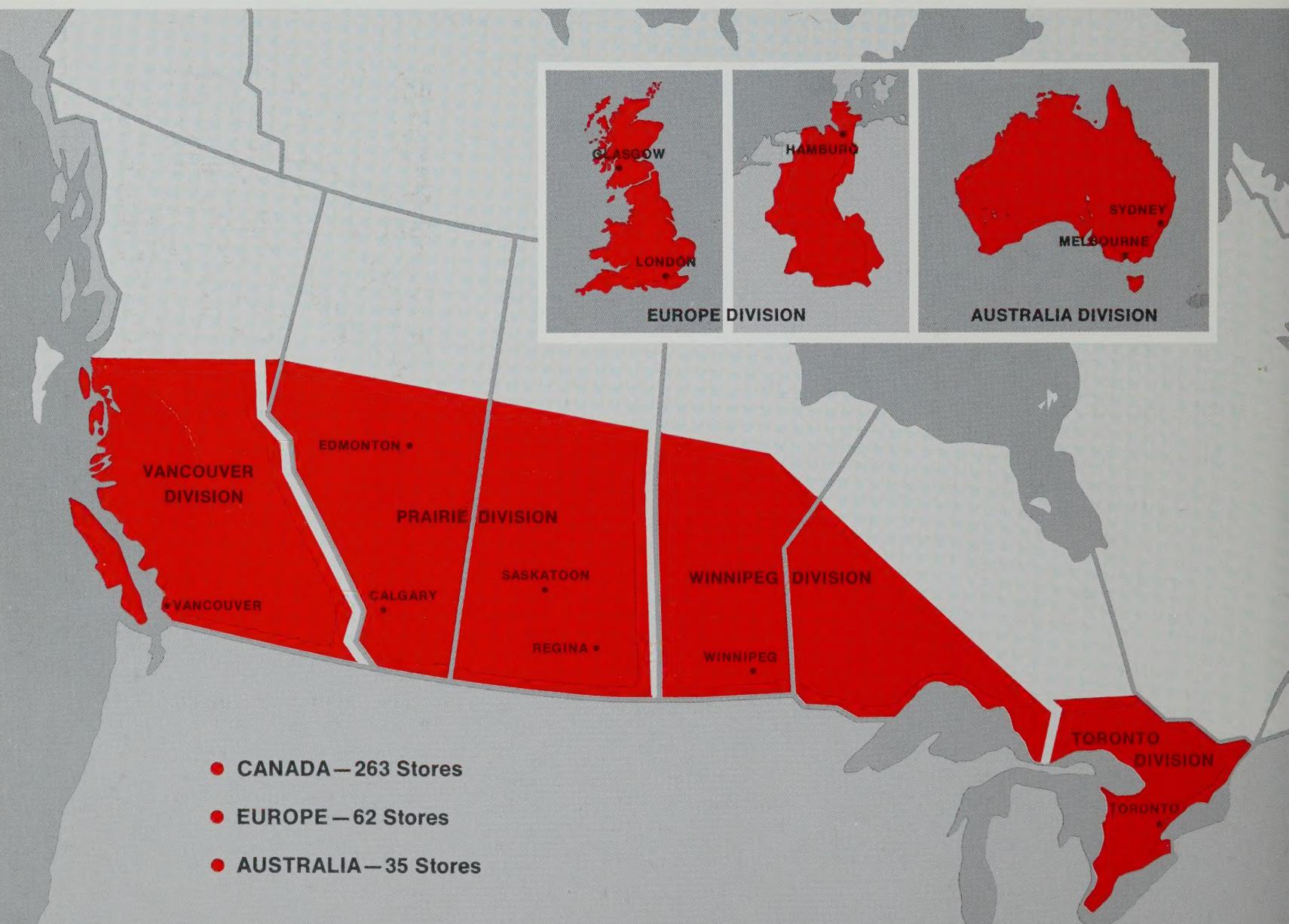


Above are the Directors and Division Managers of Canada Safeway Limited and its overseas subsidiaries; below, map showing the extent of their operations. Large photo is the Board of Directors: (l. to r.) R. J. Hansell, Secretary; John A. MacAulay, Vice President; W. F. Griffiths, Board Chairman and Winnipeg Division



Manager; W. J. Kraft, retired Board Chairman, now a Director; A. G. Anselmo, President and Prairie Division Manager; T. Milburn, Vice President and Vancouver

Division Manager, and D. Laub, Vice President and Toronto Div. Mgr. Insets are of (left) J. S. Kimball, Division Manager, Europe Division, and Managing Director, Safeway Food Stores Limited; and J. W. R. Pratt, Australia Division Manager and Managing Director, Australian Safeway Limited.



Year of Progress, Change

Through a year of change and challenge Safeway continued its gratifying progress in growth and service to our customers. 1971 was a good year for us.

Consolidated sales of Canada Safeway Limited including overseas subsidiaries were \$845.5 million, compared to \$761.9 million in 1970, an increase of 11%. This total included overseas sales of \$159.9 million, up 29% for the year.

1 Consolidated net earnings in 1971 were \$15.0 million, compared to \$14.8 million in 1970. Overseas operations contributed \$1.5 million to the 1971 earnings figure.

Retirement of Walter J. Kraft (see box this page) after so many years of fine contribution and leadership marked a milestone in Company affairs.

T. Milburn was appointed to succeed him as Vancouver Division Manager, and was elected a Vice President and Director. W. F. Griffiths succeeded Mr. Kraft (who remains a Director) as Chairman of the Board. A. G. Anselmo was elected President, and Vice President David Laub was a further addition to the Board.

In 1971 we opened 32 new stores (12 in Canada and 20 overseas) and closed 12 in Canada. Closed stores averaged 13,000 square feet as against 23,000 square feet for the new ones, for a net increase of 121,400 feet in the total of our Canadian stores.

We opened a new milk plant in Winnipeg (see photo page 2). In Calgary a 45,000-foot addition to the grocery warehouse was completed in 1971, and new equipment added. These improvements in facilities will increase efficiency.

We are making headway expanding our entry into metropolitan Toronto

which started with the opening of our first store two and a half years ago. We added two in 1970 and two in 1971 bringing the total to five. Four were under construction at year-end and more are in the pipeline.

Our stores are being well patronized by shoppers in the highly competitive Toronto market. We have received very favourable and unsolicited comment on the CBC consumer program there, especially about our fresh meats.

Following are pictures and text on the theme of this report — serving con-

sumers from the Pacific to Toronto and overseas. The continuing success of these operations benefits not only the Company and its employees, but also suppliers, governments and the general economy.

At the same time we could not be successful without the good will and patronage of our fine customers, and the skill, energy, and dedication of our Safeway people — all 17,800 of them.

We are grateful, and with them look forward to another successful year in 1972.

Walter Kraft Retires

Walter J. Kraft, Chairman of the Board since 1958, retired at the end of 1971 after 42 years with Canada Safeway Limited.

As a fitting climax to a distinguished career, in December he received the highest award of the Food Industry Association of Canada — Knight of the Golden Pencil (see photo at ceremony). Only two persons annually in all Canada receive this award, for "contribution to the growth, progress, and prestige of the Food Industry." Mr. Kraft is the first Westerner ever to be so honored.

Walter Kraft's career parallels that of Canada Safeway, which started in 1929. Walter tackled his first assignment in Calgary that year,



opening two Safeway stores there. Both Walter and Canada Safeway have been on the move ever since.

In 1933 he became our first Calgary Zone Manager. He was Division Manager in Calgary, Winnipeg, then Vancouver in 1948, later also became President. For the last 13 years in addition to Vancouver Division Manager he was Board Chairman of Canada Safeway.

We and the food industry will miss Walter Kraft. He retires with the fond best wishes of all who worked with him.

From The PACIFIC To



New Disco store in Vancouver, B. C. (above) has 26,400 sq. ft., 10 check-stands. It is a high-volume, low cost operation offering streamlined services and extraordinary savings to our customers.



This \$2,000,000 plant in Winnipeg, completed in 1971, processes 18,000 gals. of milk a day in addition to cottage cheese and yogurt.

The smiling young ladies below are "touch checking" trainers, practicing their skills in a new store. Note bag wells in the checkout counter, an integral part of this more efficient method.



For more than four decades Safeway has been serving consumers in Western Canada with quality foods efficiently distributed.

These operations today (see map inside front cover) extend from the Pacific to Toronto, where we have opened five stores since our entry into that market two and a half years ago.

Canada Safeway's four Canadian retail divisions are decentralized, each exercising a large degree of autonomy under general Company guidelines. Except for Toronto, the divisions operate warehouses and trucking fleets, and are served by our Macdonald's Consolidated operations in procurement and distribution functions, including production of many of our popular Safeway brand products.

In the far West, Vancouver Division has 91 stores serving not only the metropolitan area but Vancouver Island and large centres in British Columbia (see photo of involvement at Prince Rupert, B. C.).

Next to the east is our Prairie Division, headquartered in Calgary and operating 119 stores, reaching from Dawson Creek, B. C. across northern as well as central and southern Alberta and Saskatchewan. It has distribution facilities also in Edmonton, Saskatoon, Regina, and other major cities on the prairies.

Then comes the Winnipeg Division, with 48 stores in Manitoba and Ontario provinces, including two in the northern city of Thompson, Manitoba (see photo inside back cover). It has stores also in eastern Ontario, including Thunder Bay and Sault Ste. Marie.

Our easternmost Division, Toronto, thus far is represented in the vicinity of that metropolis only. Sometime this year it will occupy a new leased warehouse (and offices) for supplying the stores, expected to increase to 11 by the end of 1972.

Wherever Safeway operates, in metropolitan areas or prairie cities, the objective is the same: to constantly improve quality, variety, convenience and efficiency in serving consumers.

As stated by Walter Kraft, newly retired Board Chairman, in thanking the Food Industry Association of Canada for its highest award in 1971 (see page 1):

"The retail food industry in Canada has contributed much to a more pleasant and less burdensome way of life, and to one of the highest standards of living in the world. I hasten to add, however, that we must continue to increase our efficiency..."

TORONTO...

Pictures on these pages illustrate progress by Safeway toward these objectives in 1971: developing facilities and people, new and innovative efficiencies, and involvement in community activities and social concerns.

Our new Disco store which opened last September in Vancouver is designed for both convenience and cost saving, and customers are showing their appreciation by their patronage of this store.

Special features include wider aisles, eight offset shelving gondolas for cut-case stocking of bulk items such as paper products, cereals, etc.; and about 240 lineal feet of non-foods (health and beauty aids, household products, etc.).

The touch checking system for faster checkout is employed in this store (see photo). In our operations throughout Canada a program of training cashiers in touch checking (not looking at the keyboard) was begun in 1971 and will continue. Using this system, a cashier can serve a customer more efficiently than by the conventional method.

There is more to our role than economic food retailing, as our ongoing involvement in social concerns will attest. For example our Prairie Division continued its interest in the Blood Indians in their superette store at Standoff (see photo). Our Vancouver Division helped make a success of reclamation efforts during the year which resulted in the recycling of some 2,661,490,000 soft drink tins in British Columbia in 1971.

Prime Minister Trudeau visits Safeway-assisted Superette grocery operated by Blood Tribe Indians at Standoff, Alberta. Though we lent a hand, Indians by own efforts have made it a successful store.



That's Princess Anne cutting British Columbia's birthday cake at 100th anniversary celebration, while parents look on. Safeway store in Prince Rupert, B. C., designed and baked the cake.

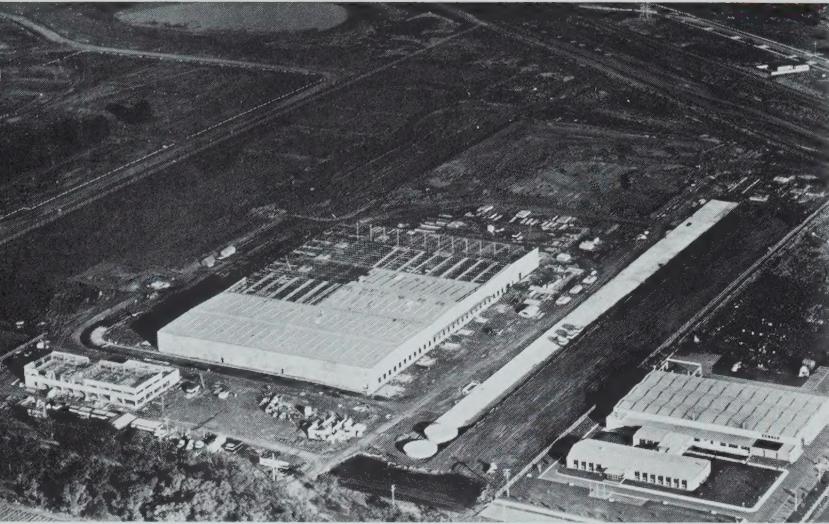


No tricks here, just the first Safeway triple trailer train taking off on bread and milk long haul between Calgary and Edmonton.

Below is busy interior of our new store in Burlington, Ont., about 30 miles from downtown Toronto (see back cover). It is fifth Safeway to open in this most populous metropolitan area of Ontario.



... and OVERSEAS



Australia Division's new warehousing-trucking-office complex in Melbourne, to be complete in 1972, will have seven acres under roof.



New store above opened recently in Brunswick Shopping Centre, Bloomsbury, near central London. Centre has numerous shops, flats.

Dramatic photo below is entrance to one of our two new stores opened in Hannover, W. Germany in 1971. Other picture is interior of same store.

SAFeway
Lister Markthallen-Passage

Expansion of our overseas operations continued at a good rate in 1971, Safeway's tenth year in Europe and ninth in Australia.

Combined retail sales exceeded \$155 million. Total stores overseas were just three short of 100 as of year-end; 48 in England and Scotland, 14 in West Germany, and 35 in Australia. Of these, 20 were new stores opened in 1971; 8 in England and Scotland, 4 in West Germany and 8 in Australia.

Safeway first ventured overseas in 1962 with acquisition of 8 stores in the London area (two have since been closed).

New stores opened in 1971 by the United Kingdom operation also totalled eight, including our first in Edinburgh, Scotland (see photo).

Of the four new stores opened in 1971 in West Germany, two were in Hamburg and two in Hannover (one is pictured on this page). The latter are our first in Hannover, a major city of more than half a million population about 75 miles south of Hamburg.

Safeway's entry into Sydney, Australia, some 500 miles north of our main concentration of stores around Melbourne, became a reality in 1971 with the opening of three large new stores in that thriving metropolis of nearly three million.

Our Australia Division looks forward to moving into its new distribution centre in the Mulgrave area of Melbourne in 1972 (see photo). This will be the largest grocery warehouse-trucking-office complex in all Australia, with seven acres under roof on a 47½ acre site and another seven acres of paved area for roadways and truck parking.



Consolidated Statement of Earnings and Retained Earnings

52 Weeks Ended December 31, 1971 (With Comparative Figures for 53 Weeks Ended January 2, 1971)

	1971	1970
Sales:		
To the public	\$845,527,109	\$761,946,033
To parent company	547,888	796,431
	846,074,997	762,742,464
Cost of sales	681,285,470	613,202,129
Gross profit	164,789,527	149,540,335
Operating and administrative expenses	132,647,762	120,032,456
Operating profit (note 7)	32,141,765	29,507,879
Interest and sundry income	1,457,889	460,087
	33,599,654	29,967,966
Other charges:		
Interest on debentures and long-term notes	1,765,543	80,666
Other interest	69,543	282,705
Loss on disposition of fixed assets	3,988	73,033
Minority interest in earnings of subsidiary	2,513	3,335
Amortization of excess cost of investment in subsidiaries	235,238	235,273
Amortization of note discount and issue expense	140,702	5,035
	2,217,527	680,047
Earnings before income taxes	31,382,127	29,287,919
Provision for income taxes (note 3)	16,367,234	14,440,530
Net earnings	15,014,893	14,847,389
Retained earnings at beginning of period	124,374,051	110,131,135
	139,388,944	124,978,524
Add:		
Items transferred from capital surplus (note 6)	1,199,837	—
Gain on acquisition of 4.40% preferred stock	74,928	38,651
	1,274,765	38,651
	140,663,709	125,017,175
Deduct:		
Cash dividends:		
Preferred stock	214,680	231,176
Common stock	112,000	112,000
Transfer to capital surplus of an amount equal to the cost of 4.40% preferred stock purchased (note 6)	299,972	299,948
	626,652	643,124
Retained earnings at end of period	\$140,037,057	\$124,374,051

See accompanying notes to financial statements.

CONSOLIDATED BALANCE SHEET

December 31, 1971 (With Comparative Figures at January 2, 1971)

ASSETS	December 31, 1971	January 2, 1971
Current assets:		
Cash	\$ 14,181,069	\$ 20,669,594
Accounts receivable	5,775,335	5,240,033
Merchandise inventories, at lower of cost or net realizable value	71,739,387	65,743,593
Prepaid expenses	2,053,548	1,473,193
Properties for sale, at net book value	4,911,231	5,594,480
Total Current Assets	98,660,570	98,720,893
Property, plant and equipment, at cost:		
Store, warehouse, plant, automotive and other equipment	90,402,324	81,937,350
Buildings	30,030,357	23,028,319
Leasehold improvements	28,656,167	24,878,996
	149,088,848	129,844,665
Less accumulated depreciation and amortization	55,982,916	49,571,783
	93,105,932	80,272,882
Land	20,038,912	17,688,736
	113,144,844	97,961,618
Other assets:		
Notes receivable, licenses, and deferred charges	688,999	612,524
Unamortized note discount and issue expense	550,753	635,333
Excess of cost of investment in subsidiaries over net assets at dates of acquisition, net of amortization	4,234,300	4,469,538
	5,474,052	5,717,395
TOTAL	\$217,279,466	\$202,399,906

NOTES TO FINANCIAL STATEMENTS

1. PRINCIPLES OF CONSOLIDATION: The consolidated financial statements include all subsidiary companies. The accounts of the Australian, British and West German subsidiaries are included for their fiscal years ended on or about September 30. The accounts of the foreign subsidiaries have been translated into Canadian dollars as follows: current assets and current liabilities at exchange rates prevailing at the end of the period; intangible assets, long-term debt, fixed assets and depreciation and amortization provisions on the basis of rates prevailing at dates of acquisition; income and expenses (other than depreciation and amortization provisions) at average exchange rates during the current period.

2. LONG-TERM NOTES PAYABLE: The 8 3/4 % notes were issued in 1970 by a subsidiary, are payable in U.S. dollars (\$20,000,000), and the payment is unconditionally guaranteed by Canada Safeway Limited. Under the terms of the guarantee certain restrictions on the creation of indebtedness are imposed in addition to the restrictions on common stock dividends as referred to in note 4.

3. DEFERRED INCOME TAXES: The companies will be allowed, for

tax purposes in 1971, depreciation in an amount greater than that recorded in the accounts and the provision for income taxes for the year includes \$558,588 for deferred taxes on the excess. The balance of deferred taxes of \$2,874,777 is applicable to future years when the depreciation for tax purposes will be less than the amounts recorded in the accounts.

4. SHAREHOLDERS' EQUITY: Under the terms of the issue of the guaranteed notes due 1975, so long as these notes are outstanding, payments of dividends on and the reduction of common stock is restricted to amounts that would not reduce the consolidated shareholders' equity to an amount less than \$100,000,000.

5. CAPITAL STOCK: Under the terms of issue of the preferred stock, a fund of \$300,000 (expenditures from which are to be replenished by July 1, annually) is set aside for the purchase of stock, if available at par value or less, for cancellation. During 1971, the Company acquired through the purchase fund 3,749 shares of 4.40% preferred stock which were cancelled. The preferred stock is subject to redemption on call at a premium of \$1 per share re-

Canada Safeway Limited and Subsidiaries

LIABILITIES AND SHAREHOLDERS' EQUITY

	December 31, 1971	January 2, 1971
Current liabilities:		
Notes payable to banks, short-term	\$ —	\$ 2,422,897
Accounts payable and accrued expenses	42,144,423	38,693,126
Income taxes payable	2,300,937	3,158,573
Due to parent company	852,473	1,396,189
Total Current Liabilities	45,297,833	45,670,785
Long-term liabilities:		
Mortgage notes payable	167,156	125,808
8 3/4 % guaranteed notes due 1975 (note 2)	20,372,800	20,372,800
Overseas long-term income taxes payable	797,598	535,776
Deferred income taxes (note 3)	2,874,777	2,316,189
Minority interest in subsidiary	53,145	50,632
	24,265,476	23,401,205
Shareholders' equity (note 4):		
Capital Stock (note 5):		
Cumulative redeemable preferred stock, par value \$100 per share.		
Authorized 98,791 shares; outstanding as 4.40% series, 48,791 shares (January 2, 1971, 52,540 shares)	4,879,100	5,254,000
Common stock, par value \$10 per share.		
Authorized and outstanding 280,000 shares	2,800,000	2,800,000
Capital surplus (note 6)	—	899,865
Retained earnings	140,037,057	124,374,051
	147,716,157	133,327,916
TOTAL	\$217,279,466	\$202,399,906

On Behalf of the Board:

Director

Director

ducing ultimately to 50 cents per share.

6. CAPITAL SURPLUS: The January 2, 1971 balance of \$899,865 in capital surplus was increased by the transfer from retained earnings of an amount equal to the cost of the 4.40% preferred stock purchased in 1971, \$299,972. By Supplementary Letters Patent, effective on November 26, 1971, the Company's authorized preferred capital stock was reduced by the cancellation of the 13,596 preferred shares purchased by the Company during the current and prior years. The cost of these shares, \$1,199,837, was transferred to retained earnings thereby restoring to that account the total cost which had previously been charged thereto.

7. OPERATING PROFIT: Depreciation and amortization included in the cost of sales and operating and administrative expenses amounted to \$10,586,734 for 1971 and \$9,201,285 for 1970.

The Company has 7 directors (5 in 1970) who were also officers and who received no remuneration as directors in 1971 or 1970. At December 31, 1971 the Company had 10 officers, including 8 holding salaried employment whose remuneration as officers amounted

to \$381,645 for 1971. At January 2, 1971 the Company had 9 officers, including 7 holding salaried employment, whose remuneration as officers amounted to \$390,737 for 1970.

8. COMMITMENTS: The estimated cost of completing capital projects under construction at December 31, 1971 is approximately \$10,484,000.

During the period ended December 31, 1971 property having a net book value of approximately \$4,137,800 was sold under lease-back arrangement.

The minimum rental on leases in effect at December 31, 1971 was approximately as follows:

1972	\$13,080,000	1977-1981	\$60,375,000
1973	12,985,000	1982-1986	43,091,000
1974	12,926,000	1987-1991	20,826,000
1975	12,896,000	After 1991	31,112,000
1976	12,881,000		

Consolidated Statement of Source and Application of Funds

52 Weeks Ended December 31, 1971 (With Comparative Figures for 53 Weeks Ended January 2, 1971)

	1971	1970
Funds provided:		
Net earnings	\$15,014,893	\$14,847,389
Add charges to income not requiring funds:		
Depreciation	10,210,794	8,960,977
Amortization of note discount and issue expense and excess cost of investment in subsidiaries	375,940	240,308
Loss on disposition of property	3,988	73,033
Minority interest in earnings of subsidiary	2,513	3,335
Increase in deferred income taxes	558,588	577,189
Increase in overseas long-term income taxes payable	261,822	535,776
Funds provided from operations	26,428,538	25,238,007
Proceeds from sale of properties	5,916,972	4,739,248
Increase in properties for sale within one year	—	415,171
Issuance of long-term notes payable	—	20,372,800
Increase in other long-term notes payable	41,348	1,877
	32,386,858	50,767,103
Funds used:		
Additions to property, net of retirements and miscellaneous equipment sales	30,631,731	29,289,197
Decrease in properties for sale within one year	683,249	—
Dividends	326,680	343,176
Reduction of preferred stock	299,972	299,948
Increase in other assets	132,597	761,260
	32,074,229	30,693,581
Increase in working capital	312,629	20,073,522
Working capital at beginning of period	53,050,108	32,976,586
Working capital at end of period	\$53,362,737	\$53,050,108

See accompanying notes to financial statements.

AUDITORS' REPORT

To the Shareholders of Canada Safeway Limited:

We have examined the consolidated balance sheet of Canada Safeway Limited and subsidiaries as of December 31, 1971 and the consolidated statements of earnings and retained earnings and source and application of funds for the 52 weeks then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

Vancouver, British Columbia
February 29, 1972

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at December 31, 1971 and the results of their operations and the source and application of their funds for the 52 week period then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding 53 weeks.

Peat, Marwick, Mitchell & Co.
Chartered Accountants

BOARD OF DIRECTORS

W. F. GRIFFITHS,
Chairman
A. G. ANSELMO
W. J. KRAFT
DAVID LAUB
JOHN A. MACAULAY, C.C., Q.C.
T. MILBURN
R. J. HANSELL

AUDITORS

PEAT, MARWICK, MITCHELL & CO.,
Vancouver

TRANSFER AGENT & REGISTRAR

THE ROYAL TRUST COMPANY,
Winnipeg, Montreal, Toronto
Vancouver and Calgary

PRINCIPAL OFFICERS

W. F. Griffiths, Winnipeg, Man.
Chairman of the Board
A. G. Anselmo, Calgary, Alta.
President
R. W. Curell, Edmonton, Alta.
Vice-President
David Laub, Toronto, Ont.
Vice-President
J. P. Leaney, Vancouver, B.C.
Vice-President
John A. MacAulay, C.C., Q.C., Winnipeg, Man.
Vice-President
T. Milburn, Vancouver, B.C.
Vice-President
R. G. Spelliscy, Vancouver, B.C.
Vice-President and Treasurer
R. J. Hansell, Winnipeg, Man.
Secretary

Flags add flair to new shopping centre complex in Thompson, Manitoba, including large Safeway store (28,250 sq. ft.). City founded as nickel mining community in 1957, is now a busy hub for trade throughout northern part of the Province.



Canada Safeway Limited

ANNUAL REPORT

1971

TORONTO (For Canada Safeway West, see front cover)

LOCKWOOD SURVEY CORPORATION LIMITED, TORONTO



LITHO'D IN CANADA